

# COVINGTON COUNTY, MISSISSIPPI

Audited Financial Statements and Special Reports  
For the Year Ended September 30, 2012

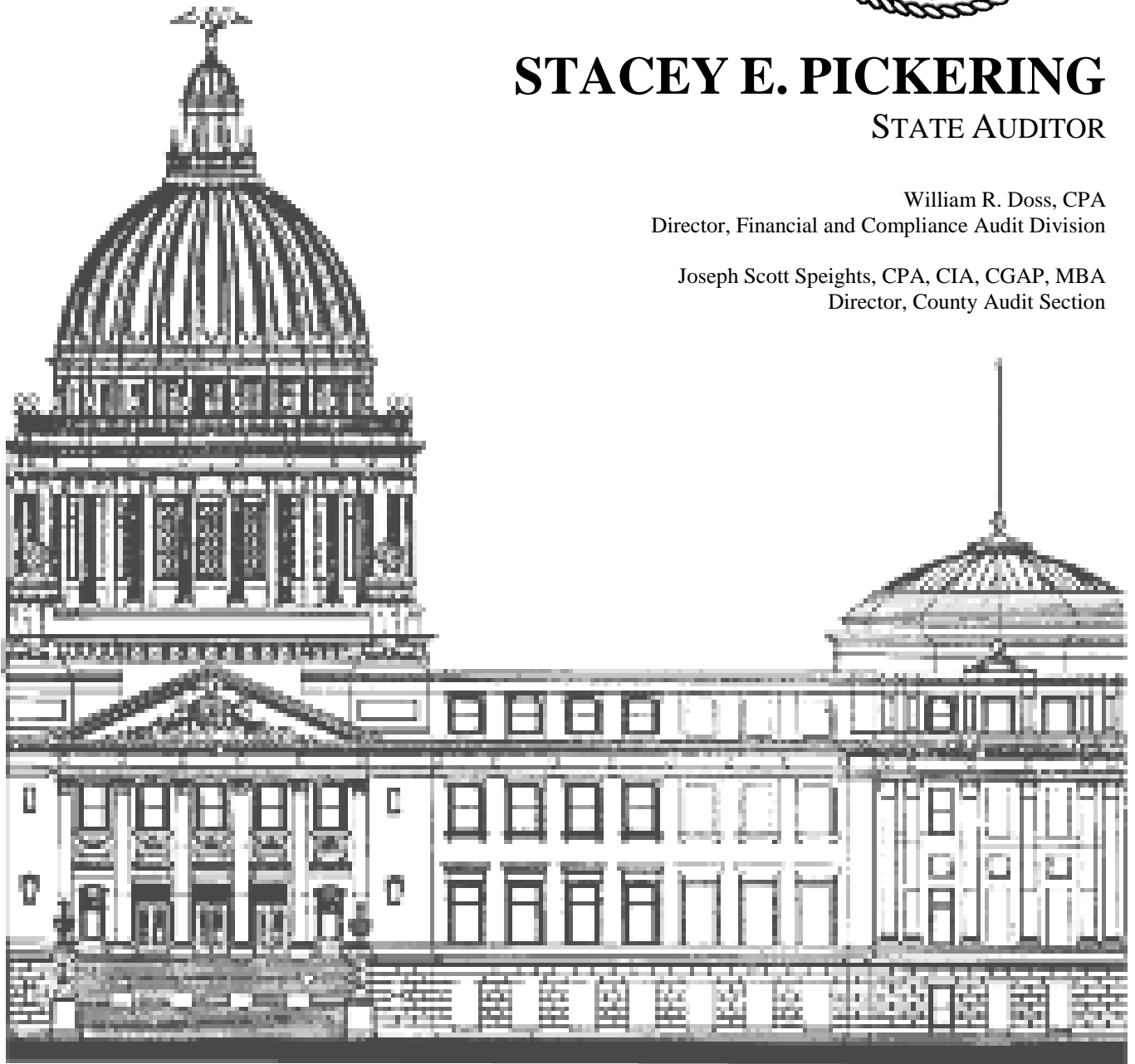


## STACEY E. PICKERING

STATE AUDITOR

William R. Doss, CPA  
Director, Financial and Compliance Audit Division

Joseph Scott Speights, CPA, CIA, CGAP, MBA  
Director, County Audit Section



A Report from the County Audit Section

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**STATE OF MISSISSIPPI**  
**OFFICE OF THE STATE AUDITOR**  
**STACEY E. PICKERING**  
AUDITOR

October 25, 2013

Members of the Board of Supervisors  
Covington County, Mississippi

Dear Board Members:

I am pleased to submit to you the 2012 financial and compliance audit report for Covington County. This audit was performed pursuant to Section 7-7-211(e), Mississippi Code Ann. (1972). The audit was performed in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

I appreciate the cooperation and courtesy extended by the officials and employees of Covington County throughout the audit. Thank you for working to move Mississippi forward by serving as a supervisor for Covington County. If I or this office can be of any further assistance, please contact me or J. Scott Speights of my staff at (601) 576-2674.

Respectfully submitted,

Stacey E. Pickering  
State Auditor



COVINGTON COUNTY

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COVINGTON COUNTY

FINANCIAL SECTION

COVINGTON COUNTY

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**STATE OF MISSISSIPPI**  
**OFFICE OF THE STATE AUDITOR**  
**STACEY E. PICKERING**  
AUDITOR

**INDEPENDENT AUDITOR'S REPORT**

Members of the Board of Supervisors  
Covington County, Mississippi

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Covington County, Mississippi, (the County) as of and for the year ended September 30, 2012, which collectively comprise the basic financial statements of the County's primary government as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the fourth paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

The financial statements do not include financial data for the County's legally separate component units. Accounting principles generally accepted in the United States of America require the financial data for those component units to be reported with the financial data of the County's primary government unless the County also issues financial statements for the financial reporting entity that include the financial data for its component units. The County has not issued such reporting entity financial statements. The amount by which this departure would affect the assets, liabilities, net assets, revenues and expenses of the aggregate discretely presented component units is not reasonably determinable.

Management did not maintain adequate subsidiary records documenting the existence and valuation of fines receivable of the Justice Court or the aging of these fines receivable. Adequate subsidiary records were not maintained and preserved for the Justice Court fines receivable aging schedules at September 30, 2012. Due to the nature of the County's records, we were unable to satisfy ourselves as to the fair presentation of fines receivable, net, reported on the Statement of Net Assets and in the General Fund at \$112,600, as of September 30, 2012. Also, because of the nature of the fines receivable records, we could not satisfy ourselves as to the fair presentation of the related transactions of the General Fund.

In our opinion, because of the omission of the discretely presented component units, as discussed in the third paragraph, the financial statements referred to previously do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the aggregate discretely presented component units of Covington County, Mississippi, as of September 30, 2012, or the changes in financial position thereof for the year then ended.

Also, in our in our opinion, except for the effects of such adjustments, if any, as might have been determined had we been able to examine evidence to determine the net realizable value of the fines receivable reported in the General Fund, the financial statements referred to previously present fairly, in all material respects, the financial position of the General Fund of Covington County, Mississippi, as of September 30, 2012, and the changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In addition, in our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, the State Aid Road Fund and the aggregate remaining fund information of Covington County, Mississippi, as of September 30, 2012, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2013, on our consideration of Covington County, Mississippi's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Budgetary Comparison Schedules and corresponding notes be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Covington County, Mississippi's basic financial statements. The accompanying Reconciliation of Operating Costs of Solid Waste is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The Reconciliation of Operating Costs of Solid Waste has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Reconciliation of Operating Costs of Solid Waste is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Covington County, Mississippi's basic financial statements. The accompanying Schedule of Surety Bonds for County Officials is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on such information.



WILLIAM R. DOSS, CPA  
Director, Financial and Compliance Audit Division

October 25, 2013

## COVINGTON COUNTY

### MANAGEMENT'S DISCUSSION AND ANALYSIS

COVINGTON COUNTY

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# COVINGTON COUNTY, MISSISSIPPI

## ***MANAGEMENT DISCUSSION AND ANALYSIS***

### ***INTRODUCTION***

The discussion and analysis of Covington County's financial performance provides an overall narrative review of the County's financial activities for the year ended September 30, 2012. The intent of this discussion and analysis is to look at the County's performance as a whole; readers should also review the notes to the basic financial statements and the financial statements to enhance their understanding of the County's financial performance.

This discussion and analysis is an element of required supplementary information specified in the "Governmental Accounting Standards Board's (GASB) Statement No. 34 – Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments" issued June 1999. Accounting principles generally accepted in the United States of America do not require comparative data in the financial statements but certain comparative information between the current year and the prior year is required to be presented in Management's Discussion and Analysis and is provided herein.

Covington County is located on U. S. Highway 84 and U. S. Highway 49. The population, according to the 2010 census, is 19,568. The poultry industry, timber industry, other agriculture activities, public storage facilities and a thriving medical community drive the local economic base.

### ***FINANCIAL HIGHLIGHTS***

Covington County is financially stable. The County has committed itself to financial excellence for many years by using sound financial planning, budgeting and strong internal controls. The County is committed to maintaining sound fiscal management to meet the challenges of the future.

Covington County continues to grow both economically and in population. This has allowed the County to maintain a steady growth in tax revenues without a significant tax increase. The County government tax rate has only increased 1.5 mills over the last six years. This does not include the school taxes.

Total net assets increased by \$1,961,228, which represents a 3.3% increase from the prior fiscal year. If an analysis is made without the Capital Assets and Long-Term debt there was a decrease of \$111,709, which represents a 0.79% decrease from the prior fiscal year. The County's ending cash balance increased by \$237,180, which represents a 1.6% increase from the prior fiscal year.

# ***COVINGTON COUNTY, MISSISSIPPI***

The County had \$11,706,355 in total revenues. Property tax revenues account for \$6,068,815 or 52% of total revenues. Operating grants, capital grants, and contributions account for \$3,490,752 or 30% of total revenues.

The County had \$9,745,127 in total expenses, which represents a decrease of \$84,025 or a 0.85% decrease from the prior fiscal year. Expenses in the amount of \$4,208,116 were offset by grants, outside contributions, or charges for services. The remainder of expenditures was offset by general revenues \$7,498,239.

Among major funds, the General Fund had \$5,102,816 in revenues and \$5,330,648 in expenditures and other financing uses. The General Fund's fund balance decreased \$227,832 over the prior year.

Among major funds, the State Aid Road Fund had \$2,692,267 in revenues and other financing sources and \$2,692,267 in expenditures.

Capital assets, net of accumulated depreciation, increased by \$2,012,557. This increase is due to a state aid road project.

Long-term debt had a net decrease of \$60,380. The difference was payments made on capital leases and other loans.

## ***OVERVIEW OF THE FINANCIAL STATEMENTS***

This discussion and analysis is intended to serve as an introduction to the County's basic financial statements. The County's basic financial statements comprise three components: 1) Government-wide financial statements, 2) Fund financial statements and 3) Notes to the basic financial statements. Required Supplementary Information is included in addition to the basic financial statements.



# ***COVINGTON COUNTY, MISSISSIPPI***

**Figure 1 – Required Components of the County's Annual Report**

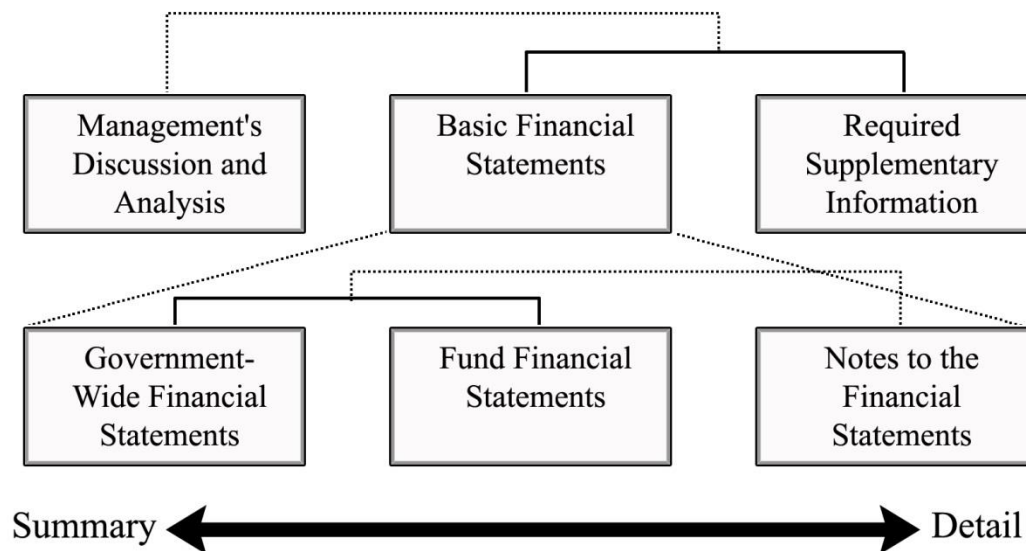


Figure 1 shows how required parts of this annual report are arranged and relate to one another.

Figure 2 summarizes the major features of a County's financial statements, including the portion of the County's government they cover and the types of information they contain. The remainder of this section of Management's Discussion and Analysis explains the structure and content of each of the statements.

# **COVINGTON COUNTY, MISSISSIPPI**

**Figure 2 – Major Features of a County’s Government-Wide and Fund Financial Statements**

	<b>Government-Wide Financial Statements</b>	<b>Fund Financial Statements</b>		
		<b>Governmental Funds</b>	<b>Proprietary Funds</b>	<b>Fiduciary Funds</b>
<b>Scope</b>	<b>Entire County government (except fiduciary funds) and component units</b>	<b>All activities of the County that are not business-type or fiduciary in nature</b>	<b>Activities of the County that operate similar to private businesses</b>	<b>The County is the trustee or agent for someone else’s resources</b>
<b>Required financial statements</b>	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of revenues, expenses and changes in net assets</li> <li>• Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net assets</li> <li>• Statement of changes in net assets</li> </ul>
<b>Accounting basis and measurement focus</b>	<b>Accrual accounting and economic resources focus</b>	<b>Modified accrual accounting and current financial resources focus</b>	<b>Accrual accounting and economic resources focus</b>	<b>Accrual accounting and economic resources focus</b>
<b>Type of asset/liability information</b>	<b>All assets and liabilities, both financial and capital and short and long term</b>	<b>Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included</b>	<b>All assets and liabilities, both financial and capital, and short and long term</b>	<b>All assets and liabilities, both short and long term</b>
<b>Type of inflow/outflow information</b>	<b>All revenues and expenses during year, regardless of when cash is received or paid</b>	<b>Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services are received and payment is due during the year or soon thereafter</b>	<b>All revenues and expenses during year, regardless of when cash is received or paid</b>	<b>All revenues and expenses during year, regardless of when cash is received or paid</b>

# ***COVINGTON COUNTY, MISSISSIPPI***

**Government-wide Financial Statements.** The government-wide financial statements are designed to provide readers with a broad overview of the County finances, in a manner similar to private-sector businesses.

The **statement of net assets** presents information on all County assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The **statement of activities** presents information showing how net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.

Both of these government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or part of their costs through user fees and charges (business-type activities). The governmental activities of the County include general government; public safety; public works (roads and bridges); health and welfare; culture and recreation; conservation of natural resources; economic development; and interest on long-term debt. Covington County does not have any business-type activities.

Component units are not included in our basic financial statements, they consist of legally separate entities for which the County is financially accountable and that have substantially the same board as the County or provide services entirely to the County. The component units that are not included are as follows:

- Southeast Covington Fire District
- Southwest Covington Fire District
- West Covington Fire District
- Mt. Pleasant Fire District
- Hot Coffee and East Covington Fire District
- Covington County Hospital
- Covington County Economic Development Authority
- Covington County Economic Development District
- Covington County Library System

# COVINGTON COUNTY, MISSISSIPPI

The Government-wide Financial Statements can be found on pages 23 and 24 of this report.

**Fund Financial Statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The County uses fund accounting to ensure and demonstrate finance-related legal compliance. All of the funds of the County can be divided into two categories: governmental funds and fiduciary funds.

**Governmental funds** are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a county's near-term financing requirements. Governmental funds include the general, special revenue, and capital projects funds.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the "Governmental Funds Balance Sheet" and the "Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances" provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are on pages 26 and 28 respectively.

The County maintains individual governmental funds in accordance with the *Mississippi County Financial Accounting Manual*. Information is presented separately in the governmental funds Balance Sheet and in the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances for all major funds. All other non-major funds are combined together and presented in these reports as other governmental funds.

The basic governmental funds financial statements can be found on pages 25 and 27 of this report.

**Fiduciary funds** are used to account for resources held for the benefit of parties outside the County government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the County's own programs. The accrual basis of accounting is used for fiduciary funds. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes. The County's fiduciary activities are presented in a separate Statement of Fiduciary Assets and Liabilities, which can be found on page 29 of this report.

# ***COVINGTON COUNTY, MISSISSIPPI***

**Notes to the financial statements** provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found on pages 31 through 42 of this report.

In addition to the basic financial statements and accompanying notes, this report also presents **Required Supplementary Information** concerning the County's budget process.

The County adopts an annual operating budget for all governmental funds. A budgetary comparison statement has been provided for the General Fund and State Aid Road Fund. This required supplementary information can be found on pages 45 and 46 of this report.

Covington County, MS was not subject to a single audit for the year ended September 30, 2012.

## ***GOVERNMENT-WIDE FINANCIAL***

**Net Assets** – Net assets may serve over time as a useful indicator of government's financial position. In the case of Covington County, assets exceeded liabilities by \$61,109,707 as of September 30, 2012.

By far, the largest portion of the County's net assets (77%) reflects its investment in capital assets (e.g. roads, bridges, land, construction in progress, buildings, mobile equipment, furniture & equipment, and leased property under capital lease) less related outstanding debt used to acquire such assets. The county uses these capital assets to provide services to its citizens.

The County's financial position is a product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets and the depreciation of capital assets.

# **COVINGTON COUNTY, MISSISSIPPI**

The following table presents a summary of the County's net assets for the fiscal year ended September 30, 2012, as compared to fiscal year ended September 30, 2011.

	<b>09/30/12 Governmental Activities</b>	<b>09/30/11 Governmental Activities</b>
<b>Assets:</b>		
Current Assets	\$ 21,634,464	\$ 20,672,038
Capital Assets, Net	47,434,706	45,422,149
Total Assets	<u>\$ 69,069,170</u>	<u>\$ 66,094,187</u>
<b>Liabilities:</b>		
Current Liabilities	\$ 7,671,174	\$ 6,597,039
Long-Term Debt Outstanding	288,289	348,669
Total Liabilities	<u>\$ 7,959,463</u>	<u>\$ 6,945,708</u>
<b>Net Assets:</b>		
Invested in Capital Assets, Net of Related Debt	\$ 47,146,417	\$ 45,073,480
Restricted	2,708,570	2,616,026
Unrestricted	11,254,720	11,458,973
Total Net Assets	<u><u>\$ 61,109,707</u></u>	<u><u>\$ 59,148,479</u></u>

The following are significant current year transactions that have had an impact on the Statement of Net Assets.

- The Board of Supervisors used accumulated cash balances to avoid tax increases.
- \$60,380 of long-term debt principal was retired.
- Capital assets had additions of \$2,968,682 from additions in construction in progress, infrastructure, mobile equipment, and furniture and equipment.

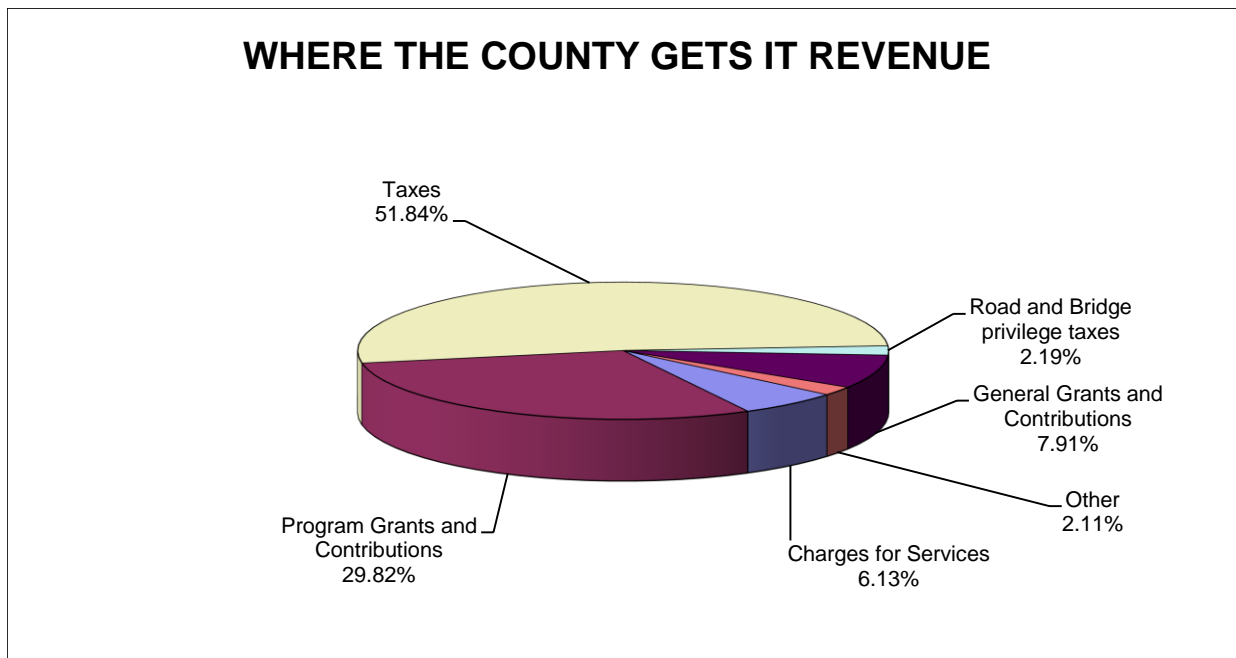
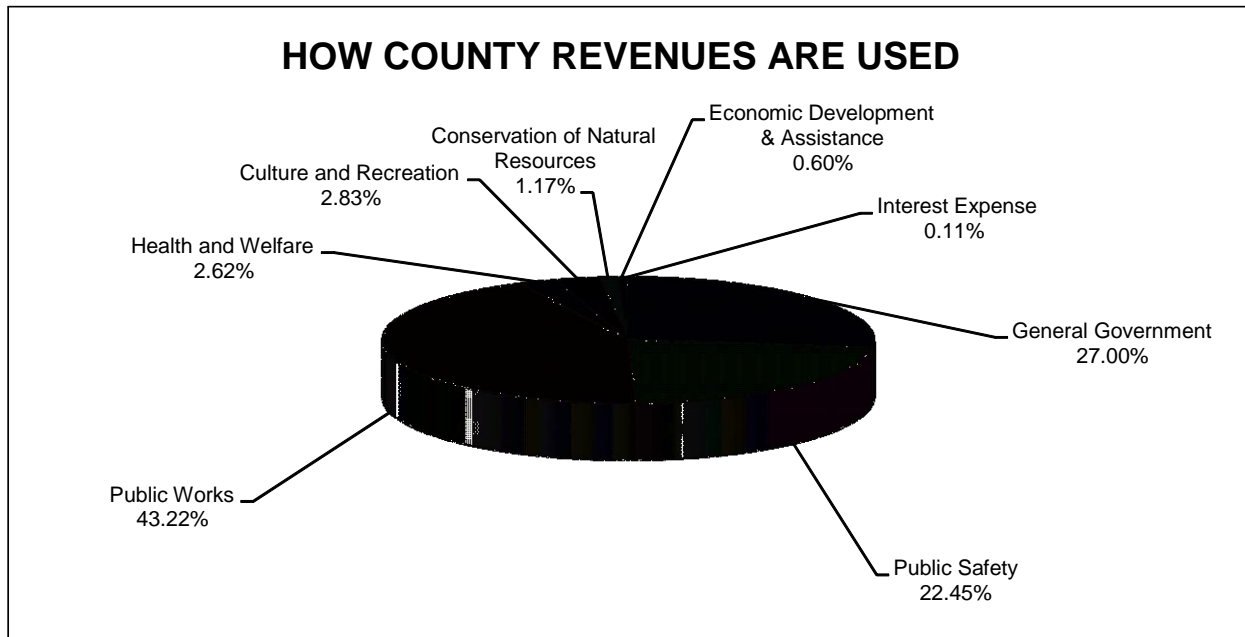
# **COVINGTON COUNTY, MISSISSIPPI**

**Changes in Net Assets**—Covington County’s total revenues for the fiscal year ended September 30, 2012 were \$11,706,355. The total cost for all services provided was \$9,745,127. The increase in net assets was \$1,961,228. The following table presents a summary of the changes in net assets for the fiscal year ended September 30, 2012, as compared to fiscal year ended September 30, 2011.

	<u>09/30/12</u>	<u>09/30/11</u>
<b>Revenues:</b>		
Program Revenues:		
Charges for Services	\$ 717,364	\$ 669,695
Grants and Contributions	3,490,752	1,060,405
General Revenues:		
Taxes	6,068,815	6,019,603
Road and Bridge privilege taxes	255,845	252,675
Grants and Contributions	926,521	920,372
Other	247,058	367,645
Total Revenues	<u>\$ 11,706,355</u>	<u>\$ 9,290,395</u>
<b>Expenses:</b>		
General Government	\$ 2,630,815	\$ 2,612,403
Public Safety	2,187,768	2,112,374
Public Works	4,211,756	4,505,848
Health and Welfare	255,593	268,823
Culture and Recreation	276,090	139,731
Conservation of Natural Resources	114,030	115,333
Economic Development & Assistance	58,665	60,625
Interest Expense	10,410	14,015
Total Expenses	<u>\$ 9,745,127</u>	<u>\$ 9,829,152</u>
 Increase (Decrease) in Net Assets	 <u><u>\$ 1,961,228</u></u>	 <u><u>\$ (538,757)</u></u>

# COVINGTON COUNTY, MISSISSIPPI

The following charts present a summary of the sources and uses of the County's revenues for the fiscal year ended September 30, 2012.





# ***COVINGTON COUNTY, MISSISSIPPI***

**Governmental Activities** – The following table presents the cost of major functional activities of the County: General Government, Public Safety, Public Works, Health & Welfare, Culture and Recreation, Conservation of Natural Resources, Economic Development and Assistance, and Interest on Long-term Debt.

	<b>Total Costs</b>	<b>Net Costs</b>
General Government	\$ 2,630,815	\$ 2,191,965
Public Safety	2,187,768	1,694,175
Public Works	4,211,756	962,351
Health and Welfare	255,593	229,325
Culture and Recreation	276,090	276,090
Conservation of Natural Resources	114,030	114,030
Economic Development and Assistance	58,665	58,665
Interest on Long-Term Debt	10,410	10,410

The table also shows each function's net cost (total cost less charges for services generated by the activity and intergovernmental aid provided for that activity.) The net cost shows the financial burden that was placed on Covington County's taxpayers by each of these functions.

## ***FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS***

**Governmental funds** – At the close of the fiscal year, Covington County's governmental funds reported a combined fund balance of \$13,850,690, a decrease of \$135,288. The decrease is 1% of the total fund balance.

The General Fund is the principal operating fund of the County. The decrease in the fund balance of the General Fund for the fiscal year is \$227,832. This decrease is due to an increase in expenditures and decrease in transfers in.

## ***BUDGETARY HIGHLIGHTS OF MAJOR FUNDS***

Over the course of the year, Covington County revised its annual operating budget on several occasions. Significant budget amendments are explained as follows:

- Amendments were made to correct the estimated beginning cash balances made in the original budget to actual beginning cash balances on October 1.
- Budgeted revenues were increased as better estimates became available.

# **COVINGTON COUNTY, MISSISSIPPI**

- The largest increase in amendments in the General Fund budget was to the public safety department. Budgeted expenditures were increased (decreased) as better estimates became available.
- With these adjustments actual disbursements were below final budget amounts by \$654,876 for the General Fund.

A schedule showing the original and final budget amounts compared to the County's actual financial activity for the General Fund and State Aid Road Fund is provided in this report as required supplementary information.

## ***CAPITAL ASSETS AND DEBT ADMINISTRATION***

**Capital Assets** – As of September 30, 2012, Covington County's total gross capital assets were \$139,307,713. This includes roads, bridges, other infrastructure, land, construction in progress, buildings, mobile equipment, furniture and equipment, and leased property under capital lease. This amount represents an increase from the previous year of \$2,778,339.

Total accumulated depreciation as of September 30, 2012 was \$91,873,007, including \$913,229 of depreciation expense for the year. The balance in total net capital assets was \$47,434,706 at year-end.

See the schedules below for additional information on Covington County's capital assets:

### **Capital Asset Values**

<b>Asset Classification</b>	<b>Balance 10/1/2011</b>	<b>Additions</b>	<b>Deletions</b>	<b>Adjustments</b>	<b>Balance 9/30/2012</b>
Land	\$ 271,551	\$ -	\$ -	\$ -	\$ 271,551
Construction in Progress		243,858			243,858
Infrastructure	120,174,156	2,413,086			122,587,242
Buildings	5,301,474				5,301,474
Mobile Equipment	8,440,850	295,606	176,967		8,559,489
Furniture and Equipment	1,996,904	16,132	13,376		1,999,660
Leased Property under Capital Leases	344,439				344,439
<b>TOTALS</b>	<b>\$ 136,529,374</b>	<b>\$ 2,968,682</b>	<b>\$ 190,343</b>	<b>\$ -</b>	<b>\$ 139,307,713</b>

# **COVINGTON COUNTY, MISSISSIPPI**

## **Capital Asset Accumulated Depreciation**

<b>Asset Classification</b>	<b>Balance</b>				<b>Balance</b>
	<b>10/1/2011</b>	<b>Additions</b>	<b>Deletions</b>	<b>Adjustments</b>	<b>9/30/2012</b>
Infrastructure	\$ 82,215,970	\$ 209,203	\$ -	\$ -	\$ 82,425,173
Buildings	1,712,025	81,762			1,793,787
Mobile Equipment	5,397,562	528,164	138,289		5,787,437
Furniture and Equipment	1,734,280	63,100	9,158		1,788,222
Leased Property under Capital Leases	47,388	31,000			78,388
	<u>\$ 91,107,225</u>	<u>\$ 913,229</u>	<u>\$ 147,447</u>	<u>\$ -</u>	<u>\$ 91,873,007</u>

**Debt Administration** – At September 30, 2012, Covington County had \$288,289 in long-term debt outstanding. The only debt outstanding as of September 30, 2012 is capital leases and other loans. Of this debt, \$60,856 was due within one year.

The State of Mississippi limits the amount of debt a county can issue to generally 15% of total assessed value. As of September 30, 2012, Covington County had no outstanding debt limited by the legal debt margin.

The following is a summary of changes in long-term liabilities and obligations for the year ending September 30, 2012:

	<b>Balance</b>			<b>Balance</b>	<b>Due Within</b>
	<b>10/1/2011</b>	<b>Additions</b>	<b>Reductions</b>	<b>9/30/2012</b>	<b>One Year</b>
Capital Leases	307,312		45,754	261,558	45,719
Other Loans	41,357		14,626	26,731	15,137
Total	<u>\$ 348,669</u>	<u>\$ -</u>	<u>\$ 60,380</u>	<u>\$ 288,289</u>	<u>\$ 60,856</u>

Additional information on Covington County's long-term debt can be found in Note 8 on page 40 of this report.

## ***CURRENT AND FUTURE ITEMS OF IMPACT***

For the year 2012-2013, Covington County, MS is planning to build a jail that would house up to 60 prisoners. They are in the process of looking at several options which includes leasing. They will continue with the usual capital purchases such as police cars, road equipment, and other capital items.

The budget for the next fiscal year reflected an increase of \$624,419 or 6.7% in revenues and an increase of \$91,923 or .8% in expenses. This is expected to increase the County's net assets.

Covington County has an unemployment rate of 8% versus 9.4% a year ago. This compares favorably with the state average rate of 9%.

# ***COVINGTON COUNTY, MISSISSIPPI***

## ***CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT***

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the County's finances and to demonstrate the County's accountability for the funds it receives. If you have questions about this report or need additional financial information, please contact the Covington County Comptroller's/Chancery Clerk's office at 101 South Elm, Collins, Mississippi 39428.

## FINANCIAL STATEMENTS

## FINANCIAL STATEMENTS

COVINGTON COUNTY

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COVINGTON COUNTY  
Statement of Net Assets  
September 30, 2012

Exhibit 1

	<u>Primary Government</u>
	<u>Governmental</u>
	<u>Activities</u>
ASSETS	
Cash	\$ 14,663,239
Property tax receivable	6,731,800
Fines receivable (net of allowance for uncollectibles of \$552,093)	112,600
Intergovernmental receivables	122,149
Other receivables	4,676
Capital assets:	
Land and construction in progress	515,409
Other capital assets, net	46,919,297
Total Assets	<u>69,069,170</u>
LIABILITIES	
Claims payable	592,259
Intergovernmental payables	284,423
Deferred revenue	6,731,800
Other payables	62,692
Long-term liabilities	
Due within one year:	
Capital debt	60,856
Due in more than one year:	
Capital debt	227,433
Total Liabilities	<u>7,959,463</u>
NET ASSETS	
Invested in capital assets, net of related debt	47,146,417
Restricted:	
Expendable:	
General government	108,833
Public safety	1,306,650
Public works	1,267,453
Culture and recreation	5,447
Economic development and assistance	159
Unemployment compensation	20,028
Unrestricted	11,254,720
Total Net Assets	<u>\$ 61,109,707</u>

The notes to the financial statements are an integral part of this statement.

COVINGTON COUNTY  
Statement of Activities  
For the Year Ended September 30, 2012

Exhibit 2

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Governmental Activities
Primary government:					
Governmental activities:					
General government	\$ 2,630,815	407,067	31,783		(2,191,965)
Public safety	2,187,768	286,116	183,209	24,268	(1,694,175)
Public works	4,211,756	24,181	580,957	2,644,267	(962,351)
Health and welfare	255,593		26,268		(229,325)
Culture and recreation	276,090				(276,090)
Conservation of natural resources	114,030				(114,030)
Economic development and assistance	58,665				(58,665)
Interest on long-term debt	10,410				(10,410)
Total Governmental Activities	\$ 9,745,127	717,364	822,217	2,668,535	(5,537,011)
General revenues:					
Property taxes				\$	6,068,815
Road & bridge privilege taxes					255,845
Grants and contributions not restricted to specific programs					926,521
Unrestricted interest income					82,516
Miscellaneous					164,542
Total General Revenues					7,498,239
Changes in Net Assets					1,961,228
Net Assets - Beginning of year					59,148,479
Net Assets - End of year				\$	61,109,707

The notes to the financial statements are an integral part of this statement.



COVINGTON COUNTY  
Balance Sheet - Governmental Funds  
September 30, 2012

Exhibit 3

	<u>Major Funds</u>			
	<u>General Fund</u>	<u>State Aid Road Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
Cash	\$ 11,602,856	39	3,060,344	14,663,239
Property tax receivable	4,027,000		2,704,800	6,731,800
Fines receivable (net of allowance for uncollectibles of \$552,093)	112,600			112,600
Intergovernmental receivables	99,418		22,731	122,149
Other receivables	3,859		817	4,676
Due from other funds			44,549	44,549
Advances to other funds			38,247	38,247
Total Assets	<u>\$ 15,845,733</u>	<u>39</u>	<u>5,871,488</u>	<u>21,717,260</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Claims payable	\$ 134,102		458,157	592,259
Intergovernmental payables	253,439			253,439
Due to other funds	75,533			75,533
Advances from other funds	38,247			38,247
Deferred revenue	4,139,600		2,704,800	6,844,400
Other payables	62,692			62,692
Total Liabilities	<u>4,703,613</u>	<u>0</u>	<u>3,162,957</u>	<u>7,866,570</u>
Fund balances:				
Restricted for:				
General government			108,833	108,833
Public safety			1,306,650	1,306,650
Public works		39	1,267,414	1,267,453
Culture and recreation			5,447	5,447
Economic development and assistance			159	159
Unemployment compensation			20,028	20,028
Assigned to:				
General government	5,097			5,097
Public safety	8,779			8,779
Culture and recreation	135,747			135,747
Unassigned	10,992,497			10,992,497
Total Fund Balances	<u>11,142,120</u>	<u>39</u>	<u>2,708,531</u>	<u>13,850,690</u>
Total Liabilities and Fund Balances	<u>\$ 15,845,733</u>	<u>39</u>	<u>5,871,488</u>	<u>21,717,260</u>

The notes to the financial statements are an integral part of this statement.

## COVINGTON COUNTY

Exhibit 3-1Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets  
September 30, 2012

	<u>Amount</u>
Total Fund Balance - Governmental Funds	\$ 13,850,690
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets are used in governmental activities and are not financial resources and, therefore, are not reported in the funds, net of accumulated depreciation of \$91,873,007.	47,434,706
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	112,600
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(288,289)</u>
Total Net Assets - Governmental Activities	\$ <u>61,109,707</u>

The notes to the financial statements are an integral part of this statement.

## COVINGTON COUNTY

Exhibit 4

## Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds

For the Year Ended September 30, 2012

	Major Funds			
	General	State Aid	Other	Total
	Fund	Road	Governmental	Governmental
	Fund	Fund	Funds	Funds
REVENUES				
Property taxes	\$ 3,439,634		2,629,181	6,068,815
Road and bridge privilege taxes			255,845	255,845
Licenses, commissions and other revenue	213,795		16,090	229,885
Fines and forfeitures	255,796			255,796
Intergovernmental revenues	1,043,581	2,664,267	709,425	4,417,273
Charges for services	3,523		204,581	208,104
Interest income	71,933		10,583	82,516
Miscellaneous revenues	74,554		45,860	120,414
Total Revenues	5,102,816	2,664,267	3,871,565	11,638,648
EXPENDITURES				
Current:				
General government	2,700,111		160,024	2,860,135
Public safety	1,671,006		450,324	2,121,330
Public works	62,608	2,692,267	3,413,469	6,168,344
Health and welfare	220,027			220,027
Culture and recreation	166,937		106,185	273,122
Conservation of natural resources	108,270			108,270
Economic development and assistance	38,942			38,942
Debt service:				
Principal			60,380	60,380
Interest			10,410	10,410
Total Expenditures	4,967,901	2,692,267	4,200,792	11,860,960
Excess of Revenues over (under) Expenditures	134,915	(28,000)	(329,227)	(222,312)
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets			87,024	87,024
Transfers in		28,000	334,747	362,747
Transfers out	(362,747)			(362,747)
Total Other Financing Sources and Uses	(362,747)	28,000	421,771	87,024
Net Changes in Fund Balances	(227,832)		92,544	(135,288)
Fund Balances - Beginning of year	11,369,952	39	2,615,987	13,985,978
Fund Balances - End of year	\$ 11,142,120	39	2,708,531	13,850,690

The notes to the financial statements are an integral part of this statement.

## COVINGTON COUNTY

Exhibit 4-1

Reconciliation of the Statement of Revenues, Expenditures and Changes in  
Fund Balances of Governmental Funds to the Statement of Activities  
For the Year Ended September 30, 2012

	<u>Amount</u>
Net Changes in Fund Balances - Governmental Funds	\$ (135,288)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Thus, the change in net assets differs from the change in fund balances by the amount that capital outlays of \$2,968,682 exceeded depreciation of \$913,229 in the current period.	2,055,453
In the Statement of Activities, only gains and losses from the sale of capital assets are reported, whereas in the Governmental Funds, proceeds from the sale of capital assets increase financial resources. Thus, the change in net assets differs from the change in fund balances by the amount of the net gain of \$44,128 and the proceeds from the sale of \$87,024 in the current period.	(42,896)
Fine revenue recognized on the modified accrual basis in the funds during the current year is reduced because prior year recognition would have been required on the Statement of Activities using the full-accrual basis of accounting.	23,579
Debt proceeds provide current financial resources to Governmental Funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of debt principal is an expenditure in the Governmental Funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Thus, the change in net assets differs from the change in fund balances by the amount of debt repayments of \$60,380.	<u>60,380</u>
Change in Net Assets of Governmental Activities	\$ <u><u>1,961,228</u></u>

The notes to the financial statements are an integral part of this statement.

COVINGTON COUNTY  
Statement of Fiduciary Assets and Liabilities  
September 30, 2012

Exhibit 5

		Agency Funds
ASSETS		
Cash	\$	345,369
Due from other funds		30,984
Total Assets	\$	<u>376,353</u>
LIABILITIES		
Amounts held in custody for others	\$	345,277
Intergovernmental payables		31,076
Total Liabilities	\$	<u>376,353</u>

The notes to the financial statements are an integral part of this statement.

COVINGTON COUNTY

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## COVINGTON COUNTY

### Notes to the Required Supplementary Information For the Year Ended September 30, 2012

#### (1) Summary of Significant Accounting Policies.

##### A. Financial Reporting Entity.

Covington County is a political subdivision of the State of Mississippi. The County is governed by an elected five-member Board of Supervisors. Accounting principles generally accepted in the United States of America require Covington County to present these financial statements on the primary government and its component units which have significant operational or financial relationships with the County.

Management has chosen to omit from these financial statements the following component units which have significant operational or financial relationships with the County. Accordingly, the financial statements do not include the data of all of the County's component units necessary for reporting in conformity with accounting principles generally accepted in the United States of America.

- Southeast Covington Fire District
- Southwest Covington Fire District
- West Covington Fire District
- Mt. Pleasant Fire District
- Hot Coffee and East Covington Fire District
- Covington County Hospital
- Covington County Economic Development Authority
- Covington County Economic Development District
- Covington County Library System

State law pertaining to county government provides for the independent election of county officials. The following elected and appointed officials are all part of the County legal entity and therefore are reported as part of the primary government financial statements.

- Board of Supervisors
- Chancery Clerk
- Circuit Clerk
- Justice Court Clerk
- Purchase Clerk
- Tax Assessor-Collector
- Sheriff

##### B. Basis of Presentation.

The County's basic financial statements consist of government-wide statements, including a Statement of Net Assets and a Statement of Activities, fund financial statements and accompanying note disclosures which provide a detailed level of financial information.

##### Government-wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information concerning the County as a whole. The statements include all nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are generally financed through taxes, intergovernmental revenues and other nonexchange revenues.

## COVINGTON COUNTY

### Notes to the Required Supplementary Information For the Year Ended September 30, 2012

The Statement of Net Assets presents the financial condition of the governmental activities of the County at year-end. The Government-wide Statement of Activities presents a comparison between direct expenses and program revenues for each function or program of the County's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore, are clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other revenues not classified as program revenues are presented as general revenues of the County, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the County.

#### Fund Financial Statements:

Fund financial statements of the County are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures. Funds are organized into governmental and fiduciary. Major individual Governmental Funds are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and presented in a single column as other Governmental Funds.

#### C. Measurement Focus and Basis of Accounting.

The Government-wide and Fiduciary Funds (excluding agency funds) financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used, regardless of when the related cash flows take place. Property taxes are recognized as revenue in the year for which they are levied. Shared revenues are recognized when the provider government recognizes the liability to the County. Grants are recognized as revenues as soon as all eligibility requirements have been satisfied. Agency funds have no measurement focus, but use the accrual basis of accounting.

Governmental financial statements are presented using a current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized in the accounting period when they are both measurable and available to finance operations during the year or to liquidate liabilities existing at the end of the year. Available means collected in the current period or within 60 days after year end to liquidate liabilities existing at the end of the year. Measurable means knowing or being able to reasonably estimate the amount. Expenditures are recognized in the accounting period when the related fund liabilities are incurred. Debt service expenditures and expenditures related to compensated absences and claims and judgments, are recognized only when payment is due. Property taxes, state appropriations and federal awards are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period.

The County reports the following major Governmental Funds:

General Fund - This fund is used to account for and report all financial resources not accounted for and reported in another fund.

State Aid Road Fund - This fund is used to account for monies from specified revenue sources that are restricted for road construction and maintenance.



## COVINGTON COUNTY

### Notes to the Required Supplementary Information For the Year Ended September 30, 2012

Additionally, the County reports the following fund types:

#### GOVERNMENTAL FUND TYPES

Special Revenue Funds - These funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

Capital Projects Funds - These funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

#### FIDUCIARY FUND TYPE

Agency Funds - These funds account for various taxes, deposits and other monies collected or held by the County, acting in the capacity of an agent, for distribution to other governmental units or designated beneficiaries.

#### D. Account Classifications.

The account classifications used in the financial statements conform to the broad classifications recommended in *Governmental Accounting, Auditing and Financial Reporting* as issued in 2005 by the Government Finance Officers Association.

#### E. Deposits and Investments.

State law authorizes the County to invest in interest bearing time certificates of deposit for periods of fourteen days to one year with depositories and in obligations of the U.S. Treasury, State of Mississippi, or any county, municipality or school district of this state. Further, the County may invest in certain repurchase agreements.

Cash includes cash on hand, demand deposits, all certificates of deposit and cash equivalents, which are short-term highly liquid investments that are readily convertible to cash (generally three months or less). Investments in governmental securities are stated at fair value. However, the County did not invest in any governmental securities during the fiscal year.

#### F. Receivables.

Receivables are reported net of allowances for uncollectible accounts, where applicable.

#### G. Interfund Transactions and Balances.

Transactions between funds that are representative of short-term lending/borrowing arrangements and transactions that have not resulted in the actual transfer of cash at the end of the fiscal year are referred to as "due to/from other funds." Noncurrent portions of interfund receivables and payables are reported as "advances to/from other funds." Advances between funds, as reported in the fund financial statements, are offset by a nonspendable fund balance account in the General Fund, if applicable, to indicate that they are not available for appropriation and are not expendable available financial resources. However, this is not applicable to advances reported in other governmental funds, which are reported by definition as restricted, committed or assigned. Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets.

## COVINGTON COUNTY

### Notes to the Required Supplementary Information For the Year Ended September 30, 2012

#### H. Capital Assets.

Capital acquisition and construction are reflected as expenditures in Governmental Fund statements and the related assets are reported as capital assets in the governmental activities column in the government-wide financial statements. All purchased capital assets are stated at historical cost where records are available and at an estimated historical cost where no records exist. Capital assets include significant amounts of infrastructure which have been valued at estimated historical cost. The estimated historical cost was based on replacement cost multiplied by the consumer price index implicit price deflator for the year of acquisition. The extent to which capital assets, other than infrastructure, costs have been estimated and the methods of estimation are not readily available. Donated capital assets are recorded at estimated fair market value at the time of donation. The costs of normal maintenance and repairs that do not add to the value of assets or materially extend their respective lives are not capitalized; however, improvements are capitalized. Interest expenditures are not capitalized on capital assets.

Governmental accounting and financial reporting standards allow governments meeting certain criteria to elect not to report major general infrastructure assets retroactively. Covington County elected to report general infrastructure assets acquired after September 30, 1980, on the government-wide financial statements. General infrastructure assets include all roads and bridges and other infrastructure assets.

Capitalization thresholds (dollar value above which asset acquisitions are added to the capital asset accounts) and estimated useful lives are used to report capital assets in the government-wide statements. Depreciation is calculated on the straight-line basis for all assets, except land. A full year's depreciation expense is taken for all purchases and sales of capital assets during the year. The following schedule details those thresholds and estimated useful lives:

	Capitalization Thresholds	Estimated Useful Life
Land	\$ 0	N/A
Infrastructure	0	20-50 years
Buildings	50,000	40 years
Mobile equipment	5,000	5-10 years
Furniture and equipment	5,000	3-7 years
Leased property under capital leases	*	*

\* Leased property capitalization policy and estimated useful life will correspond with the amounts for the asset classification, as listed above.

#### I. Long-term Liabilities.

Long-term liabilities are the unmatured principal of bonds, loans, notes or other forms of noncurrent or long-term general obligation indebtedness. Long-term liabilities are not limited to liabilities from debt issuances, but may also include liabilities on lease-purchase agreements and other commitments.

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities Statement of Net Assets

## COVINGTON COUNTY

### Notes to the Required Supplementary Information For the Year Ended September 30, 2012

#### J. Equity Classifications.

##### Government-wide Financial Statements:

Equity is classified as net assets and displayed in three components:

Invested in capital assets, net of related debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings attributable to the acquisition, construction or improvement of those assets.

Restricted net assets - Consists of net assets with constraints placed on the use either by external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or law through constitutional provisions or enabling legislation.

Unrestricted net assets - All other net assets not meeting the definition of “restricted” or “invested in capital assets, net of related debt.”

##### Fund Financial Statements:

Fund balances for governmental funds are reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

Government fund balance is classified as nonspendable, restricted, committed, assigned or unassigned. The following are descriptions of fund classifications used by the County:

*Restricted fund balance* includes amounts that have constraints placed upon the use of the resources either by an external party or imposed by law through a constitutional provision or enabling legislation.

*Assigned fund balance* includes amounts that are constrained by the County’s intent to be used for a specific purpose, but are neither restricted nor committed. For governmental funds, other than the general fund, this is the residual amount within the fund that is not classified as nonspendable and is neither restricted nor committed. Assignments of fund balance are created by the Board of Supervisors pursuant to authorization established by the board minutes.

*Unassigned fund balance* is the residual classification for the General Fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed or assigned to specific purposes within the General Fund. The General Fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds if expenditures incurred for specific purposes exceeded the amounts restricted, committed or assigned to those purposes, it may be necessary to report a negative unassigned fund balance.

When an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned or unassigned) resources are available, it is the County’s general policy to use restricted resources first. When expenditures are incurred for purposes for which unrestricted (committed, assigned and unassigned) resources are available, and amounts in any of these unrestricted classifications could be used, it is the County’s general policy to spend committed resources first, followed by assigned amounts, and then unassigned amounts.

## COVINGTON COUNTY

### Notes to the Required Supplementary Information For the Year Ended September 30, 2012

#### K. Property Tax Revenues.

Numerous statutes exist under which the Board of Supervisors may levy property taxes. The selection of authorities is made based on the objectives and responsibilities of the County. Restrictions associated with property tax levies vary with the statutory authority. The amount of increase in certain property taxes is limited by state law. Generally, this restriction provides that these tax levies shall produce no more than 110% of the amount which resulted from the assessments of the previous year.

The Board of Supervisors, each year at a meeting in September, levies property taxes for the ensuing fiscal year which begins on October 1. Real property taxes become a lien on January 1 of the current year, and personal property taxes become a lien on March 1 of the current year. Taxes on both real and personal property, however, are due on or before February 1 of the next succeeding year. Taxes on motor vehicles and mobile homes become a lien and are due in the month that coincides with the month of original purchase.

Accounting principles generally accepted in the United States of America require property taxes to be recognized at the levy date if measurable and available. All property taxes are recognized as revenue in the year for which they are levied. Motor vehicle and mobile home taxes do not meet the measurability and collectability criteria for property tax recognition because the lien and due date cannot be established until the date of original purchase occurs.

#### L. Intergovernmental Revenues in Governmental Funds.

Intergovernmental revenues, consisting of grants, entitlements and shared revenues, are usually recorded in Governmental Funds when measurable and available. However, the "available" criterion applies for certain federal grants and shared revenues when the expenditure is made because expenditure is the prime factor for determining eligibility. Similarly, if cost sharing or matching requirements exist, revenue recognition depends on compliance with these requirements.

#### (2) Deposits.

The carrying amount of the County's total deposits with financial institutions at September 30, 2012, was \$15,008,608, and the bank balance was \$16,041,213. The collateral for public entities' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation (FDIC).

**Custodial Credit Risk - Deposits.** Custodial credit risk is the risk that in the event of the failure of a financial institution, the County will not be able to recover deposits or collateral securities that are in the possession of an outside party. The County does not have a formal policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the County. Deposits above FDIC coverage are collateralized by the pledging financial institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the County.

COVINGTON COUNTY

Notes to the Required Supplementary Information  
For the Year Ended September 30, 2012

(3) Interfund Transactions and Balances.

The following is a summary of interfund balances at September 30, 2012:

A. Due From/To Other Funds:

Receivable Fund	Payable Fund	Amount
Other Governmental Funds	General	\$ 44,549
Agency Funds	General	30,984
Total		\$ 75,533

The majority of the receivables represent the tax revenue collected but not settled until October, 2012. A portion of the receivables represent an error in the posting of revenue during the year. All interfund balances are expected to be repaid within one year from the date of the financial statements.

B. Advances from/to Other Funds:

Receivable Fund	Payable Fund	Amount
Other Governmental Funds	General	\$ 38,247

The amounts payable represent the correction of prior year's errors in the posting of motor vehicle fuel tax to incorrect funds. All advances are expected to be repaid within one year from the date of the financial statements.

C. Transfers In/Out:

Transfer In	Transfer Out	Amount
State Aid Road Fund	General Fund	\$ 28,000
Other Governmental Funds	General Fund	334,747
Total		\$ 362,747

The principal purpose of interfund transfers was to provide funds for grant matches or to provide funds to pay for capital outlay. All interfund transfers were routine and consistent with the activities of the fund making the transfer.

(4) Intergovernmental Receivables.

Intergovernmental receivables at September 30, 2012, consisted of the following:

Description	Amount
Governmental Activities:	
Legislative tax credit	\$ 90,420
Edward Byrne memorial justice assistance grant program	13,980
State and community highway safety	17,749
Total Governmental Activities	\$ 122,149

COVINGTON COUNTY

Notes to the Required Supplementary Information  
For the Year Ended September 30, 2012

(5) Capital Assets.

The following is a summary of capital assets activity for the year ended September 30, 2012:

Governmental activities:

	Balance Oct. 1, 2011	Additions	Deletions	Adjustments	Balance Sept. 30, 2012
<u>Non-depreciable capital assets:</u>					
Land	\$ 271,551				271,551
Construction in progress		243,858			243,858
Total non-depreciable capital assets	271,551	243,858	0	0	515,409
<u>Depreciable capital assets:</u>					
Infrastructure	120,174,156	2,413,086			122,587,242
Buildings	5,301,474				5,301,474
Mobile equipment	8,440,850	295,606	176,967		8,559,489
Furniture and equipment	1,996,904	16,132	13,376		1,999,660
Leased property under capital leases	344,439				344,439
Total depreciable capital assets	136,257,823	2,724,824	190,343	0	138,792,304
<u>Less accumulated depreciation for:</u>					
Infrastructure	82,215,970	209,203			82,425,173
Buildings	1,712,025	81,762			1,793,787
Mobile equipment	5,397,562	528,164	138,289		5,787,437
Furniture and equipment	1,734,280	63,100	9,158		1,788,222
Leased property under capital leases	47,388	31,000			78,388
Total accumulated depreciation	91,107,225	913,229	147,447	0	91,873,007
Total depreciable capital assets, net	45,150,598	1,811,595	42,896	0	46,919,297
Governmental activities capital assets, net	\$ 45,422,149	2,055,453	42,896	0	47,434,706

Depreciation expense was charged to the following functions:

	Amount
Governmental Activities:	
General government	\$ 22,670
Public safety	146,918
Public works	679,624
Health and welfare	35,566
Culture and recreation	2,968
Conservation of natural resources	5,760
Economic development and assistance	19,723
Total governmental activities depreciation expense	\$ 913,229

Commitments with respect to unfinished capital projects at September 30, 2012, consisted of the following:

Description of Commitment	Remaining Financial Commitment	Expected Date of Completion
Richmond Precinct/Community Center	\$ 6,142	12-2002

# COVINGTON COUNTY

## Notes to the Required Supplementary Information For the Year Ended September 30, 2012

### (6) Claims and Judgments.

#### Risk Financing.

The County finances its exposure to risk of loss related to workers' compensation for injuries to its employees through the Mississippi Public Entity Workers' Compensation Trust, a public entity risk pool. The County pays premiums to the pool for its workers' compensation insurance coverage, and the participation agreement provides that the pool will be self-sustaining through member premiums. The retention for the pool is \$1,000,000 for each accident and completely covers statutory limits set by the Workers' Compensation Commission. Risk of loss is remote for claims exceeding the pool's retention liability. However, the pool also has catastrophic reinsurance coverage for statutory limits above the pool's retention, provided by Safety National Casualty Corporation, effective from January 1, 2012, to January 1, 2013. The pool may make an overall supplemental assessment or declare a refund depending on the loss experience of all the entities it insures.

### (7) Capital Leases.

#### As Lessee:

The County is obligated for the following capital assets acquired through capital leases as of September 30, 2012:

<u>Class of Property</u>		<u>Governmental Activities</u>
Mobile equipment	\$	344,439
Less: Accumulated depreciation		<u>78,388</u>
Leased Property Under Capital Leases	\$	<u><u>266,051</u></u>

The following is a schedule by years of the total payments due as of September 30, 2012:

<u>Year Ending September 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2013	\$ 45,719	7,788
2014	47,188	6,319
2015	157,023	3,882
2016	<u>11,628</u>	<u>76</u>
Total	\$ <u><u>261,558</u></u>	<u><u>18,065</u></u>

COVINGTON COUNTY

Notes to the Required Supplementary Information  
For the Year Ended September 30, 2012

(8) Long-term Debt.

Debt outstanding as of September 30, 2012, consisted of the following:

<u>Description and Purpose</u>	<u>Amount Outstanding</u>	<u>Interest Rate</u>	<u>Final Maturity Date</u>
Governmental Activities:			
A. Capital Leases:			
District 5 Volvo G930 motor grader	\$ 150,532	3.28%	06-2015
District 4 New Holland tractor with boom	55,513	3.12%	01-2016
District 5 New Holland tractor with boom	<u>55,513</u>	3.12%	01-2016
Total Capital Leases	<u>\$ 261,558</u>		
B. Other Loans:			
District 5 420E backhoe	<u>\$ 26,731</u>	3.37%	06-2014

Annual debt service requirements to maturity for the following debt reported in the Statement of Net Assets are as follows:

Governmental Activities:

<u>Year Ending September 30</u>	<u>Other Loans</u>	
	<u>Principal</u>	<u>Interest</u>
2013	\$ 15,137	681
2014	<u>11,594</u>	<u>268</u>
Total	<u>\$ 26,731</u>	<u>949</u>

Legal Debt Margin - The amount of debt, excluding specific exempted debt, that can be incurred by the County is limited by state statute. Total outstanding debt during a year can be no greater than 15% of assessed value of the taxable property within the County, according to the then last completed assessment for taxation. However, the limitation is increased to 20% whenever a county issues bonds to repair or replace washed out or collapsed bridges on the public roads of the County. As of September 30, 2012, the County had no outstanding debt limited by the legal debt margin.

The following is a summary of changes in long-term liabilities and obligations for the year ended September 30, 2012:

	<u>Balance Oct. 1, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Adjustments</u>	<u>Balance Sept. 30, 2012</u>	<u>Amount due within one year</u>
Governmental Activities:						
Capital leases	\$ 307,312		45,754		261,558	45,719
Other loans	<u>41,357</u>		<u>14,626</u>		<u>26,731</u>	<u>15,137</u>
Total	<u>\$ 348,669</u>	<u>0</u>	<u>60,380</u>	<u>0</u>	<u>288,289</u>	<u>60,856</u>



## COVINGTON COUNTY

### Notes to the Required Supplementary Information For the Year Ended September 30, 2012

(9) Contingencies.

Federal Grants - The County has received federal grants for specific purposes that are subject to audit by the grantor agencies. Entitlements to these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a grantor audit may become a liability of the County. No provision for any liability that may result has been recognized in the County's financial statements.

Litigation - The County is party to legal proceedings, many of which occur in the normal course of governmental operations. It is not possible at the present time to estimate ultimate outcome or liability, if any, of the County with respect to the various proceedings. However, the County's legal counsel believes that ultimate liability resulting from these lawsuits will not have a material adverse effect on the financial condition of the County.

Hospital Revenue Bond Contingencies - The County issues revenue bonds to provide funds for constructing and improving capital facilities of the Covington County Hospital. Revenue bonds are reported as a liability of the hospital because such debt is payable primarily from the hospital's pledged revenues. However, the County remains contingently liable for the retirement of these bonds because the full faith, credit and taxing power of the County is secondarily pledged in case of default by the hospital. The principal amount of hospital revenue bonds outstanding at September 30, 2012, is \$6,405,000.

(10) Joint Ventures.

The County participates in the following joint venture:

Covington County is a participant with the Counties of Jones and Perry, and the Cities of Hattiesburg, Laurel and Petal in a joint venture, authorized by Section 17-17-307, Miss. Code Ann. (1972), to operate the Pine Belt Regional Solid Waste Authority. The joint venture was created to dispose of solid waste in members of the authority. The Covington County Board of Supervisors appoints one of twelve members of the board of directors. The authority is funded by user fees based on the volume of solid waste. Complete financial statements for the Pine Belt Regional Solid Waste Authority can be obtained from P.O. Box 1898, Hattiesburg, MS 39403.

(11) Jointly Governed Organizations.

The County participates in the following jointly governed organizations:

Southern Mississippi Planning and Development District operates in a district composed of the Counties of Covington, Forrest, George, Greene, Hancock, Harrison, Jackson, Jefferson Davis, Jones, Lamar, Marion, Pearl River, Perry, Stone and Wayne. The Covington County Board of Supervisors appoints one of the 27 members of the board of directors. The County contributes a small percentage of the district's total revenue. The County appropriated \$25,000 for support of the district in fiscal year 2012.

Pine Belt Mental Health Care Resources operates in a district composed of the Counties of Covington, Forrest, Greene, Jefferson Davis, Jones, Lamar, Marion, Perry and Wayne. The Covington County Board of Supervisors appoints one of the nine members of the board of commissioners. The County appropriated \$35,000 for support of the entity in fiscal year 2012.

Jones County Junior College operates in a district composed of the Counties of Clarke, Covington, Greene, Jasper, Jones, Perry, Smith and Wayne. The Covington County Board of Supervisors appoints two of the 20 members of the college board of trustees. The County appropriated \$399,653 for maintenance and support of the college in fiscal year 2012.

## COVINGTON COUNTY

### Notes to the Required Supplementary Information For the Year Ended September 30, 2012

Pearl River Valley Opportunity, Inc. operates in a district composed of the Counties of Covington, Forrest, Jefferson Davis, Jones, Lamar, Marion, Pearl River and Perry. The entity was created to administer programs conducted by community action agencies, limited purpose agencies and related programs authorized by federal law. The Covington County Board of Supervisors appoints one of the 24 members of the board of directors. The primary source of funding for the entity is derived from federal funds. Each county provides a modest amount of financial support when matching funds are required for federal grants. The County appropriated \$10,000 for support of the district in fiscal year 2012.

Mississippi Regional Housing Authority VIII operates in a district composed of the Counties of Covington, Forrest, George, Greene, Hancock, Harrison, Jackson, Jones, Lamar, Marion, Pearl River, Perry, Stone and Wayne. The governing body is a 15-member board of commissioners, one appointed by the Board of Supervisors of each of the member counties and one appointed at large. The counties generally provide no financial support to the organization.

Southeast Mississippi Air Ambulance District operates in a district composed of the Counties of Covington, Forrest, Greene, Jefferson Davis, Marion, Pearl River, Perry, Stone and Walthall. The Covington County Board of Supervisors appoints one of the nine members of the board of directors. The County appropriated \$72,500 for support of the district in fiscal year 2012.

#### (12) Defined Benefit Pension Plan.

Plan Description. Covington County, Mississippi, contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing, multiple-employer, defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Benefit provisions are established by state law and may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That information may be obtained by writing to Public Employees' Retirement System, PERS Building, 429 Mississippi Street, Jackson, MS 39201-1005 or by calling 1-800-444-PERS.

Funding Policy. At September 30, 2012, PERS members were required to contribute 9% of their annual covered salary, and the County is required to contribute at an actuarially determined rate. The rate at September 30, 2012 was 14.26% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The County's contributions (employer share only) to PERS for the years ending September 30, 2012, 2011 and 2010 were \$372,511, \$338,227 and \$330,387, respectively, equal to the required contributions for each year.

#### (13) Subsequent Event.

Events that occur after the Statement of Net Assets date but before the financial statements are available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the Statement of Net Assets date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the Statement of Net Assets date require disclosure in the accompanying notes. Management of Covington County evaluated the activity of the County through October 25, 2013, and determined that the following subsequent event has occurred requiring disclosure in the notes to the financial statements.

Subsequent to September 30, 2012, the County issued the following debt obligation:

Issue Date	Interest Rate	Issue Amount	Type of Financing	Source of Financing
6/20/2013	3.40%	\$ 4,140,000	Certificates of Participation	General Fund Revenue

COVINGTON COUNTY

REQUIRED SUPPLEMENTARY INFORMATION

COVINGTON COUNTY

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COVINGTON COUNTY  
 Budgetary Comparison Schedule -  
 Budget and Actual (Non-GAAP Basis)  
 General Fund  
 For the Year Ended September 30, 2012  
 UNAUDITED

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes	\$ 3,449,000	3,495,351	3,473,547	(21,804)
Licenses, commissions and other revenue	165,000	214,309	214,309	
Fines and forfeitures	270,000	246,073	248,329	2,256
Intergovernmental revenues	854,900	1,692,288	1,074,441	(617,847)
Charges for services	800		3,429	3,429
Interest income	68,672	73,390	73,386	(4)
Miscellaneous revenues	240,029	202,100	130,103	(71,997)
Total Revenues	<u>5,048,401</u>	<u>5,923,511</u>	<u>5,217,544</u>	<u>(705,967)</u>
EXPENDITURES				
Current:				
General government	3,037,500	3,225,900	2,680,896	545,004
Public safety	1,456,244	1,679,644	1,659,550	20,094
Public works	39,400	65,000	62,423	2,577
Health and welfare	250,600	262,600	232,187	30,413
Culture and recreation	24,118	180,300	168,008	12,292
Conservation of natural resources	112,497	112,497	109,059	3,438
Economic development and assistance	80,000	80,000	38,942	41,058
Total Expenditures	<u>5,000,359</u>	<u>5,605,941</u>	<u>4,951,065</u>	<u>654,876</u>
Excess of Revenues over (under) Expenditures	<u>48,042</u>	<u>317,570</u>	<u>266,479</u>	<u>(51,091)</u>
OTHER FINANCING SOURCES (USES)				
Other financing sources	36,000	145,893	145,893	
Other financing uses	(1,970,000)	(2,002,841)	(488,000)	1,514,841
Total Other Financing Sources and Uses	<u>(1,934,000)</u>	<u>(1,856,948)</u>	<u>(342,107)</u>	<u>1,514,841</u>
Net Change in Fund Balance	(1,885,958)	(1,539,378)	(75,628)	1,463,750
Fund Balances - Beginning	<u>11,104,000</u>	<u>11,438,812</u>	<u>11,439,952</u>	<u>1,140</u>
Fund Balances - Ending	<u>\$ 9,218,042</u>	<u>9,899,434</u>	<u>11,364,324</u>	<u>1,464,890</u>

The accompanying notes to the Required Supplementary Information are an integral part of this statement.

COVINGTON COUNTY  
 Budgetary Comparison Schedule -  
 Budget and Actual (Non-GAAP Basis)  
 State Aid Road Fund  
 For the Year Ended September 30, 2012  
 UNAUDITED

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Intergovernmental revenues	\$ 200,000	251,181	251,181	
Total Revenues	<u>200,000</u>	<u>251,181</u>	<u>251,181</u>	<u>0</u>
EXPENDITURES				
Current:				
Public works	200,000	279,181	279,181	
Total Expenditures	<u>200,000</u>	<u>279,181</u>	<u>279,181</u>	<u>0</u>
Excess of Revenues over (under) Expenditures	<u>0</u>	<u>(28,000)</u>	<u>(28,000)</u>	<u>0</u>
OTHER FINANCING SOURCES (USES)				
Other financing sources		28,000	28,000	
Total Other Financing Sources and Uses	<u>0</u>	<u>28,000</u>	<u>28,000</u>	<u>0</u>
Net Change in Fund Balance	0	0	0	0
Fund Balances - Beginning	<u>39</u>	<u>39</u>	<u>39</u>	<u>0</u>
Fund Balances - Ending	<u>\$ 39</u>	<u>39</u>	<u>39</u>	<u>0</u>

The accompanying notes to the Required Supplementary Information are an integral part of this statement.

# COVINGTON COUNTY

## Notes to the Required Supplementary Information For the Year Ended September 30, 2012 UNDAUDITED

### A. Budgetary Information.

Statutory requirements dictate how and when the County's budget is to be prepared. Generally, in the month of August, prior to the ensuing fiscal year beginning each October 1, the Board of Supervisors of the County, using historical and anticipated fiscal data and proposed budgets submitted by the Sheriff and the Tax Assessor-Collector for his or her respective department, prepares an original budget for each of the Governmental Funds for said fiscal year. The completed budget for the fiscal year includes for each fund every source of revenue, each general item of expenditure, and the unencumbered cash and investment balances. When during the fiscal year it appears to the Board of Supervisors that budgetary estimates will not be met, it may make revisions to the budget.

The County's budget is prepared principally on the cash basis of accounting. All appropriations lapse at year end, and there are no encumbrances to budget because state law does not require that funds be available when goods or services are ordered, only when payment is made.

### B. Basis of Presentation.

The Budgetary Comparison Schedule - Budget and Actual (Non-GAAP Basis) presents the original legally adopted budget, the final legally adopted budget, actual amounts on a budgetary (Non-GAAP Basis) and variances between the final budget and the actual amounts. The schedule is presented for the General Fund and the major Special Revenue Fund. The Budgetary Comparison Schedule - Budget and Actual (Non-GAAP Basis) is a part of required supplemental information.

### C. Budget/GAAP Reconciliation

The major differences between the budgetary basis and the GAAP basis are:

1. Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

The following schedule reconciles the budgetary basis schedules to the GAAP basis financial statements for the General Fund and the major Special Revenue Fund:

	Governmental Fund Types	
	General Fund	State Aid Road Fund
Budget (Cash Basis)	\$ (75,628)	0
Increase (Decrease)		
Net adjustments for revenue accruals	(260,621)	(2,413,086)
Net adjustments for expenditure accruals	108,417	2,413,086
GAAP Basis	\$ <u>(227,832)</u>	<u>0</u>

COVINGTON COUNTY

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COVINGTON COUNTY

SUPPLEMENTAL INFORMATION

COVINGTON COUNTY

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COVINGTON COUNTY  
Reconciliation of Operating Costs of Solid Waste  
For the Year Ended September 30, 2012

Operating Expenditures, Cash Basis:

Salaries	\$	265,868
Expendable Commodities:		
Gasoline and petroleum products		59,442
Repair parts		6,066
Maintenance		2,973
Contractual Services		151,540
Supplies		<u>4,972</u>

Solid Waste Cash Basis Operating Expenditures		490,861
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Full Cost Expenses:

Indirect administrative costs		3,259
Depreciation on equipment		<u>45,049</u>

Solid Waste Full Cost Operating Expenses	\$	<u><u>539,169</u></u>
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COVINGTON COUNTY

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## COVINGTON COUNTY

## OTHER INFORMATION

COVINGTON COUNTY

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COVINGTON COUNTY  
Schedule of Surety Bonds for County Officials  
For the Year Ended September 30, 2012  
UNAUDITED

Name	Position	Company	Bond
Mason Stringer	Supervisor District 1	Western Surety Company	\$100,000
John Holifield	Supervisor District 2	FCCI Insurance Company	\$100,000
Jimmy D. White	Supervisor District 3	Western Surety Company	\$100,000
Guy Cecil Easterling	Supervisor District 4	FCCI Insurance Company	\$100,000
Donnie R. Barnes	Supervisor District 5	FCCI Insurance Company	\$100,000
Jimmie Baggett	Chancery Clerk	FCCI Insurance Company	\$100,000
Jimmie Baggett	Purchase Clerk	FCCI Insurance Company	\$75,000
Lee Amanda Williamson	Assistant Purchase Clerk	Hartford Fire Insurance Company	\$75,000
Pamela Mechelle Lopez	Assistant Purchase Clerk	RLI Insurance Company	\$50,000
Lisa Saulters	Assistant Purchase Clerk	FCCI Insurance Company	\$75,000
Maxine W. Anderson	Receiving Clerk	Hartford Fire Insurance Company	\$75,000
Joe Ponder	Assistant Receiving Clerk	FCCI Insurance Company	\$50,000
James Beasley	Assistant Receiving Clerk	FCCI Insurance Company	\$50,000
Pamela Wade Smith	Assistant Receiving Clerk	RLI Insurance Company	\$50,000
Sandra Brinson	Inventory Control Clerk	Zurich North American Surety	\$75,000
Joe Ponder	Constable	FCCI Insurance Company	\$50,000
Billy J. Pitts	Constable	FCCI Insurance Company	\$50,000
Melissa Duckworth	Circuit Clerk	FCCI Insurance Company	\$100,000
Stann Q. Smith	Sheriff	FCCI Insurance Company	\$100,000
Bobby Wayne Mooney	Justice Court Judge	FCCI Insurance Company	\$50,000
John Laz Sanford	Justice Court Judge	FCCI Insurance Company	\$50,000
Laurie C. Williamson	Justice Court Clerk	FCCI Insurance Company	\$50,000
Paula Owen	Deputy Justice Court Clerk	FCCI Insurance Company	\$50,000
Cassity Booker	Deputy Justice Court Clerk	FCCI Insurance Company	\$50,000
Stephanie Ponder	Deputy Justice Court Clerk	FCCI Insurance Company	\$50,000
Cindy Aultman Sanford	Tax Collector-Assessor	FCCI Insurance Company	\$100,000

COVINGTON COUNTY

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## COVINGTON COUNTY

### SPECIAL REPORTS

COVINGTON COUNTY

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**STATE OF MISSISSIPPI  
OFFICE OF THE STATE AUDITOR  
STACEY E. PICKERING  
AUDITOR**

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE  
FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Members of the Board of Supervisors  
Covington County, Mississippi

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Covington County, Mississippi, (the County) as of and for the year ended September 30, 2012, which collectively comprise the County's basic financial statements and have issued our report thereon dated October 25, 2013. Our report includes an adverse opinion on the aggregate discretely presented component units due to the omission of the discretely presented component units which are required by accounting principles generally accepted in the United States of America to be reported with the financial data of the County's primary government unless the County also issues financial statements for the financial reporting entity that include the financial data for its component units. Additionally, our report includes a qualified opinion on the General Fund because the County did not maintain and preserve adequate subsidiary records documenting the existence and valuation of the Justice Court fines receivable, net and the aging of these receivables at September 30, 2012. Except for the limitations related to the qualified opinion on the General Fund, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the County is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Covington County, Mississippi's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as 12-1, 12-2, 12-6 and 12-7 to be material weaknesses.

A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as 12-3, 12-4, 12-5 and 12-8 to be significant deficiencies.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Covington County, Mississippi's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, we noted certain matters that we reported to the management of Covington County, Mississippi, in the Independent Auditor's Report on Central Purchasing System, Inventory Control System and Purchase Clerk Schedules and the Limited Internal Control and Compliance Review Management Report dated October 25, 2013, included within this document.

Covington County's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit Covington County's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Board of Supervisors, others within the entity, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink that reads "Will-R. Dooss". The signature is written in a cursive, flowing style.

WILLIAM R. DOSS, CPA  
Director, Financial and Compliance Audit Division

October 25, 2013



**STATE OF MISSISSIPPI  
OFFICE OF THE STATE AUDITOR  
STACEY E. PICKERING  
AUDITOR**

**INDEPENDENT AUDITOR'S REPORT ON CENTRAL PURCHASING SYSTEM,  
INVENTORY CONTROL SYSTEM AND PURCHASE CLERK SCHEDULES  
(REQUIRED BY SECTION 31-7-115, MISS. CODE ANN. (1972))**

Members of the Board of Supervisors  
Covington County, Mississippi

We have examined Covington County, Mississippi's (the County) compliance with establishing and maintaining a central purchasing system and inventory control system in accordance with Sections 31-7-101 through 31-7-127, Miss. Code Ann. (1972) and compliance with the purchasing requirements in accordance with the bid requirements of Section 31-7-13, Miss. Code Ann. (1972) during the year ended September 30, 2012. The Board of Supervisors of Covington County, Mississippi is responsible for the County's compliance with those requirements. Our responsibility is to express an opinion on the County's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the County's compliance with those requirements and performing other procedures as we considered necessary in the circumstances. We believe our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the County's compliance with specified requirements. The Board of Supervisors of Covington County, Mississippi, has established centralized purchasing for all funds of the County and has established an inventory control system. The objective of the central purchasing system is to provide reasonable, but not absolute, assurance that purchases are executed in accordance with state law.

Because of inherent limitations in any central purchasing system and inventory control system, errors or irregularities may occur and not be detected. Also, projection of any current evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

The results of our audit procedures disclosed a certain instance of noncompliance with the aforementioned code sections. This instance of noncompliance was considered in forming our opinion on compliance. Our finding and recommendation and your response are disclosed below:

Inventory Control Clerk.

Inventory Control Clerk should maintain an inventory control system.

Finding

Section 31-7-107, Miss. Code Ann. (1972), requires the Inventory Control Clerk to maintain an inventory control system. Adequate controls over capital assets require that certain data elements be captured in capital asset records for all capital assets. Required data elements include description of assets, cost, locations, acquisition dates, disposition dates, methods of disposition, and other relevant information.

The presence of these data elements in capital assets records helps identify and distinguish county assets from one another, thereby safeguarding county assets from loss or misappropriation. As reported in the prior year's audit report, our test results indicated a deficiency in the capital assets records. Four (4) assets, which were disposed of during the fiscal year, were not approved in the minutes of the Board of Supervisors. The failure to maintain an inventory control system could result in the reporting of inaccurate amounts and increases the possibility of the loss or misappropriation of public funds.

#### Recommendation

The Inventory Control Clerk should implement procedures to properly maintain accurate inventory records documenting the existence, completeness and valuation of capital assets.

#### Inventory Control Clerk's Response

Procedures will be reviewed between the Board of Supervisors and the Inventory Control Clerk to assure that no fixed assets will be removed from the County's inventory without an order by the Board of Supervisors.

In our opinion, except for the noncompliance referred to in the preceding paragraph, Covington County, Mississippi, complied, in all material respects, with state laws governing central purchasing, inventory and bid requirements for the year ended September 30, 2012.

The accompanying schedules of (1) Purchases Not Made from the Lowest Bidder, (2) Emergency Purchases and (3) Purchases Made Noncompetitively from a Sole Source are presented in accordance with Section 31-7-115, Miss. Code Ann. (1972). The information contained on these schedules has been subjected to procedures performed in connection with our aforementioned examination of the purchasing system and, in our opinion, is fairly presented when considered in relation to that examination.

Covington County's response to the finding included in this report was not audited, and accordingly, we express no opinion on it.

This report is intended for use in evaluating the central purchasing system and inventory control system of Covington County, Mississippi, and is not intended to be and should not be relied upon for any other purpose. However, this report is a matter of public record and its distribution is not limited.



WILLIAM R. DOSS, CPA  
Director, Financial and Compliance Audit Division

October 25, 2013

COVINGTON COUNTY

Schedule 1

Schedule of Purchases Not Made From the Lowest Bidder  
For the Year Ended September 30, 2012

Our test results did not identify any purchases from other than the lowest bidder.

COVINGTON COUNTY  
Schedule of Emergency Purchases  
For the Year Ended September 30, 2012

Schedule 2

Our test results did not identify any emergency purchases.



COVINGTON COUNTY

Schedule 3

Schedule of Purchases Made Noncompetitively From a Sole Source  
For the Year Ended September 30, 2012

Our test results did not identify any purchases made noncompetitively from a sole source.

COVINGTON COUNTY

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**STATE OF MISSISSIPPI  
OFFICE OF THE STATE AUDITOR  
STACEY E. PICKERING  
AUDITOR**

**LIMITED INTERNAL CONTROL AND COMPLIANCE REVIEW MANAGEMENT REPORT**

Members of the Board of Supervisors  
Covington County, Mississippi

In planning and performing our audit of the financial statements of Covington County, Mississippi (the County) for the year ended September 30, 2012, we considered Covington County, Mississippi's internal control to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on internal control.

In addition, for areas not considered material to Covington County, Mississippi's financial reporting, we have performed some additional limited internal control and state legal compliance review procedures as identified in the state legal compliance audit program issued by the Office of the State Auditor. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the County's compliance with these requirements. Accordingly, we do not express such an opinion. This report does not affect our report dated October 25, 2013, on the financial statements of Covington County, Mississippi.

Due to the reduced scope, these review procedures and compliance tests cannot and do not provide absolute assurance that all state legal requirements have been complied with. Also, our consideration of internal control would not necessarily disclose all matters within the internal control that might be weaknesses. In accordance with Section 7-7-211, Miss. Code Ann. (1972), the Office of the State Auditor, when deemed necessary, may conduct additional procedures and tests of transactions for this or other fiscal years to ensure compliance with legal requirements.

The results of our review procedures and compliance tests identified certain areas that are opportunities for strengthening internal controls and operating efficiency. Our findings, recommendations, and your responses are disclosed below:

Board of Supervisors.

1. Approval of interfund transfers should be documented in the board minutes.

Finding

Section 19-3-27, Miss. Code Ann. (1972), requires a complete and correct record be maintained for all proceedings of the Board of Supervisors. As reported in the prior year's audit report, interfund transfers were made without board orders spread on the minutes. The failure to obtain board approval for interfund transfers could result in erroneous amounts being reported and increases the possibility of the loss or misuse of public funds.

Recommendation

The Board of Supervisors should spread complete orders on the minutes relative to interfund transfers.

#### Board of Supervisors' Response

All interfund transfers will be done with a board order and spread on the minutes. The interfund transfers were part of the claims docket and was signed off by all supervisors.

2. Required documentation should be filed with PERS when hiring PERS service retirees.

#### Finding

The Mississippi Public Employees Retirement System (PERS) requires, under the re-employment provisions of Section 25-11-127, Miss. Code Ann. (1972), counties hiring PERS service retirees to file PERS Form 4B, "Certification/Acknowledgement of Re-employment of Retiree", with the PERS office within five (5) days of employment of a PERS retiree. The County failed to file this form within the required time for five of its employed PERS retirees. This caused the county to be in noncompliance with legal requirements.

#### Recommendation

The Board of Supervisors should ensure that the required form is filed with PERS as soon as possible and should implement procedures to ensure that the County files PERS Form 4B, "Certification/Acknowledgement of Re-employment of Retiree", for all retirees rehired by the County within five (5) days of employment.

#### Board of Supervisors' Response

Current PERS form 4B's have been filed for re-employment with county. Proper procedures have been put in place for future yearly filing legal requirement for re-employed PERS retirees.

3. Covington County should install network banners on its internal network.

#### Finding

As reported in the prior year's audit report, we noted that the system did not display appropriate network banners on its internal network. Network banners are electronic messages that provide notice of legal rights to users of computer networks. Bannering assists in the prosecution of computer related incidents by helping prevent certain defenses made by the perpetrator.

#### Recommendation

We recommend that Covington County implement appropriate network banners on its internal network.

#### Board of Supervisors' Response

Covington County agrees with the findings of the control deficiencies and will implement procedures to correct these deficiencies.

4. Covington County should expire all individual's passwords on a periodic basis.

#### Finding

As reported in the prior year's audit report, a discussion of Covington County's security settings revealed user's passwords were set to never expire. Generally non-expiring passwords should be reserved only for system tasks which could require continuous service. Otherwise, all passwords should be set to expire in accordance with policy to be determined by Covington County. Expiring passwords on a periodic basis is an industry best practice.

#### Recommendation

We recommend that all passwords for individual user-ids be set to expire immediately and a policy be implemented to ensure passwords are expired on a regular basis.

#### Board of Supervisors' Response

Covington County agrees with the findings of the control deficiencies and will implement procedures to correct these deficiencies.

5. Covington County should strengthen its password policy to force more complex passwords.

#### Finding

As reported in the prior year's audit report, Covington County presently does not force the users to create strong or complex passwords to its computer system. Password strength is a measure of the effectiveness of a password in resisting guessing and brute-force attacks. The strength of a password is a function of length, complexity, and unpredictability. Using strong passwords lowers overall risk of a security breach, but strong passwords do not replace the need for other effective security controls. The current policy in Active Directory allows a minimum of three characters and does not force the use of special characters.

#### Recommendation

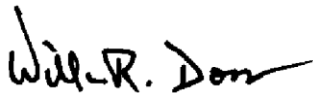
Covington County should configure Active Directory to require a minimum of eight characters and require special characters to be used in the password.

#### Board of Supervisors' Response

Covington County agrees with the findings of the control deficiencies and will implement procedures to correct these deficiencies.

Covington County's responses to the findings included in this report were not audited, and accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Board of Supervisors, and others within the entity and is not intended to be and should not be used by anyone other than these parties. However, this report is a matter of public record and its distribution is not limited.



WILLIAM R. DOSS, CPA  
Director, Financial and Compliance Audit Division

October 25, 2013

COVINGTON COUNTY

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COVINGTON COUNTY

SCHEDULE OF FINDINGS AND RESPONSES

COVINGTON COUNTY

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COVINGTON COUNTY

Schedule of Findings and Responses  
For the Year Ended September 30, 2012

Section 1: Summary of Auditor's Results

***Financial Statements:***

1. Type of auditor's report issued on the financial statements:

Governmental activities	Unqualified
Aggregate discretely presented component units	Adverse
General Fund	Qualified
State Aid Road Fund	Unqualified
Aggregate remaining fund information	Unqualified
2. Internal control over financial reporting:
  - a. Material weaknesses identified? Yes
  - b. Significant deficiencies identified? Yes
3. Noncompliance material to the financial statements noted? No

Section 2: Financial Statement Findings

Board of Supervisors.

Material Weakness

- 12-1. Financial data for County's component units should be included in the County's financial statements.

Finding

Generally accepted accounting principles require the financial data for the County's component units to be reported with the financial data of the County's primary government unless the County also issues financial statements for the financial reporting entity that include the financial data for its component units. As reported in the prior five years' audit reports, the financial statements do not include the financial data for the County's legally separate component units. The failure to properly follow generally accepted accounting principles resulted in an adverse opinion on the discretely presented component units.

Recommendation

The Board of Supervisors should provide the financial data for its discretely presented component units for inclusion in the County's financial statements.

Board of Supervisors' Response

The Board of Supervisors recognizes the failure to include financial data of the County's component units has resulted in an adverse opinion. The cost of providing this data is not feasible, and for some of the units, financial data may not be available to the board.

## COVINGTON COUNTY

### Schedule of Findings and Responses For the Year Ended September 30, 2012

#### Material Weakness

##### 12-2. Controls over the recording of receipts should be established.

###### Finding

An effective system of internal control over receipts should include the correct recording of receipts. In February 2012, a Tax Collector settlement for the Pat Harrison Waterway in the amount of \$26,047 was erroneously recorded as interest income in the County's General Fund, instead of being recorded in the Pat Harrison Waterway Fund and being remitted to the Pat Harrison Waterway, as required. These funds have not yet been remitted to the Pat Harrison Waterway. Failure to correctly record receipts resulted in an overstatement of revenues in the County's General Fund and tax collections not being remitted to the Pat Harrison Waterway. An adjustment was proposed to management and made to the financial statements with management's approval.

###### Recommendation

The Board of Supervisors should ensure that all receipts are recorded in the correct funds and remitted to the proper authorities.

###### Board of Supervisors' Response

When recording receipts in the receipts warrant book, extra precautions will be put into place. When receipts are recorded, office personnel will check behind each other to ensure that the funds are recorded correctly and remitted to the necessary authorities.

###### Auditor's Note

On September 7, 2013, these funds were settled to the Pat Harrison Waterway.

#### Significant Deficiency

##### 12-3. Covington County should establish a disaster recovery process.

###### Finding

As reported in the prior year's audit report, Covington County has not established a disaster recovery process. As a result, Covington County cannot fully ensure the County's information systems can be restored in a timely manner. Disaster recovery involves defining and documenting plans to help sustain and recover critical information technology resources, information systems, and associated business functions. *Control Objectives for Information and Related Technology* (CobiT, Section DS4), as well as recognized industry best practices, require a written disaster recovery plan be developed and tested regularly to provide orderly recovery of vital functions in the event of a hardware or environmental disaster. Failure to maintain an adequate recovery plan could impede the County's ability to regain computer operations in the event of a disaster.

There are a number of steps that an organization can take to prevent or minimize the damage to automated operations that may occur from unexpected events. One example is routinely backing up data files and programs and securely storing them at an off-site location. Such actions maintain the organization's ability to restore data files, which may be impossible to re-create.

## COVINGTON COUNTY

### Schedule of Findings and Responses For the Year Ended September 30, 2012

#### Recommendation

We recommend Covington County develop and implement a disaster recovery plan documenting procedures to be followed during an emergency. Once the plan is completed, it should be subjected to proper testing, and employees should be made aware of their responsibilities in the event of a disaster.

#### Board of Supervisors' Response

Covington County agrees with the significant deficiency finding. We will be working with Delta Computer Systems and Premise, Inc. to implement the recommended plan, policies and procedures.

#### Significant Deficiency

- 12-4. Covington County should implement a program of IT governance.

#### Finding

IT Governance is the leadership and organization structures and processes that ensure an organization's IT investments sustain and extend business strategies and objectives. IT governance decision-making frameworks and processes help define how all IT investment decisions will be made, where accountability lies for those decisions and the ongoing management of IT investments and technology standards.

Policies, procedures and standards define IT organizational behavior and uses of technology. They are a part of the written record that defines how the IT organization performs services that support the organization. As reported in the prior year's audit report, policy documents should be developed and ratified by IT management. IT policies typically cover topics such as security processes, risk management, roles and responsibilities, development practices, operational practices, incident management, project management and vulnerability management.

#### Recommendation

We recommend that Covington County establish governance through an IT steering committee that will be responsible for setting long-term IT strategy and ensure that IT processes will effectively meet the County's business needs. Additionally, we recommend Covington County implement a program of IT governance that will address change management, quality management, security management, performance optimization, and establish an effective organizational structure and clear statements of roles and responsibilities.

#### Board of Supervisors' Response

Covington County agrees with the significant deficiency finding. We will be working with Delta Computer Systems and Premise, Inc. to implement the recommended plan, policies and procedures.

#### Significant Deficiency

- 12-5. Covington County should implement a formal information security policy.

#### Finding

As reported in the prior year's audit report, Covington County has not adopted a formal Information Security Policy or Enterprise Security Plan. This finding also relates to finding 12-4 in this report, as a strong security stance is a function of a strong IT Governance process.

The lack of a formal Information Security Policy can lead to a breakdown of basic security practices in the areas of application security, LAN/WAN security, management of the security application and Internet protocol.

## COVINGTON COUNTY

### Schedule of Findings and Responses For the Year Ended September 30, 2012

#### Recommendation

Practices outlined in the *Mississippi State Enterprise Security Policy* are typical of appropriate standards for any moderate sized IT organization. While full compliance with all facets of the policy may be an economic challenge for Covington County, beginning steps to become compliant with a policy similar to the *Mississippi Enterprise Security Policy* are necessary. We recommend that Covington County create a plan on compliance with industry standards to ensure progress towards a robust documented information security plan.

#### Board of Supervisors' Response

Covington County agrees with the significant deficiency finding. We will be working with Delta Computer Systems and Premise, Inc. to implement the recommended plan, policies and procedures.

Justice Court Clerk.

Material Weakness

- 12-6. The Justice Court Clerk should ensure effective controls over fines receivable.

#### Finding

An effective system of internal control over fines receivable records should include maintaining adequate subsidiary records to substantiate the total fines receivable balance. As reported in the prior year's audit report, management did not maintain adequate subsidiary records documenting the existence and valuation of fines receivable for Justice Court fines and the aging of fines receivable. Therefore, the Independent Auditor's Report includes a qualified opinion on the General Fund because we were unable to satisfy ourselves as to the fair presentation of the Justice Court fines receivable.

#### Recommendation

The Justice Court Clerk should establish procedures documenting the existence and valuation of Justice Court fines receivable, including the aging schedule of fines receivable.

#### Justice Court Clerk's Response

In response to the finding that the Court Clerk should ensure effective controls over fines receivable: the findings were found in a time which I was not employed with the Covington County Justice Court. I will keep all reports up to date while I am the Justice Court Clerk.

Material Weakness

- 12-7. The Justice Court Clerk should maintain the cash journal and supporting documentation.

#### Finding

An effective system of internal control for collecting, recording and disbursing cash in the Justice Court Clerk's office should include maintaining the cash journal and supporting documentation. As reported in the prior five years' audit reports, the following deficiencies were noted:

- a. Bank statements were not reconciled on a timely basis.
- b. The subsidiary ledger was not maintained and did not tie to the outstanding bond balance.
- c. The distribution of cash form was not accurate.

## COVINGTON COUNTY

### Schedule of Findings and Responses For the Year Ended September 30, 2012

Without adequate accounting records, inaccurate information may be reported resulting in an increased possibility of loss or misappropriation of public funds.

#### Recommendation

The Justice Court Clerk should maintain the cash journal and supporting documentation to ensure public funds are not misappropriated. The bank statement should be reconciled to the cash journal on a monthly basis.

#### Justice Court Clerk's Response

In response to the finding that the Court Clerk should maintain the cash and supporting documentation: the findings were found in a time when I was not employed with the Covington County Justice Court. On a monthly basis, I have balanced each monthly bank statement, I am keeping the cash bond balances on record, and I have also made sure the distribution of cash forms are accurate.

Inventory Control Clerk.

Significant Deficiency

- 12-8. The Inventory Control Clerk should maintain an inventory control system.

#### Finding

An effective system of internal control over capital assets should include that certain data elements be captured in capital asset records for all capital assets. Required data elements include description of assets, cost, locations, acquisition dates, disposition dates, methods of disposition and other relevant information. The presence of these data elements in capital assets records helps identify and distinguish county assets from one another, thereby safeguarding county assets from loss or misappropriation. As reported in the prior year's audit report, our test results indicated a deficiency in the capital assets records. Four (4) assets, which were disposed of during the fiscal year, were not approved in the minutes of the Board of Supervisors. The failure to maintain an inventory control system could result in the reporting of inaccurate amounts and increases the possibility of the loss or misappropriation of public funds.

#### Recommendation

The Inventory Control Clerk should implement procedures to properly maintain accurate inventory records documenting the existence, completeness, and valuation of capital assets.

#### Inventory Control Clerk's Response

Procedures will be reviewed between the Board of Supervisors and the Inventory Control Clerk to assure that no fixed assets will be removed from the County's inventory without an order by the Board of Supervisors.